

Message Text

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ACTION EB-11

INFO OCT-01 EA-11 ISO-00 PM-07 AGR-20 CEA-02 CIAE-00

COME-00 DODE-00 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06

NSAE-00 NSC-07 PA-04 RSC-01 AID-20 CIEP-02 SS-20

STR-08 TAR-02 TRSE-00 USIA-15 PRS-01 SP-03 FEA-02

OMB-01 SWF-02 FTC-01 DRC-01 /174 W

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R 170646Z APR 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 1314

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E.O. 11652: N/A

TAGS: EIND EFIN

SUBJ: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: A. STATE 53993 B. TOKYO 9543 C. STATE 140870

D. TOKYO A-333 OF APR 3, 1973

1. BEGIN UNCLASSIFIED. FOLLOWING IS EMBASSY NARRATIVE
STATEMENT ON INVESTMENT CLIMATE REQUESTED REF A. AS WITH
LAST YEARS' STATEMENT (REFS B,C, D), STATISTICS NOT PROVIDED
AS THEY APPEARED IN SURVEY OF CURRENT BUSINESS.

2. BEGIN TEXT JAPANESE INWARD FOREIGN INVESTMENT REGULATIONS ARE
BASED ON THE PRINCIPLE OF 100 PERCENT FOREIGN PARTICIPATION.
PRIOR TO MAY 1, 1973, THE PRINCIPLE WAS TO LIMIT FOREIGN
PARTICIPATION TO 50 PERCENT IN MOST AREAS.

APPROXIMATELY 900 INVESTMENT AREAS ARE OPEN TO 100 PER-
CENT FOREIGN OWNERSHIP OF NEW ENTERPRISES. THERE ARE 17
AREAS WHICH WILL BE LIBERALIZED DURING THE NEXT TWO YEARS. THESE
INCLUDE SOME FOOD PROCESSING FIELDS, DRUGS, PHOTOGRAPHIC

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MATERIALS, COMPUTER SALES AND LEASING, COMPUTER SOFTWARE,

PRECISION INSTRUMENTS AND REAL ESTATE.

FIVE FIELDS REMAIN CLOSED, UNLESS SPECIAL PERMISSION IS GRANTED. THESE ARE:
AGRICULTURE, FORESTRY AND FISHERIES
MINING (UP TO 50 PERCENT OWNERSHIP PERMITTED)
OIL INDUSTRY (US MAJORS ALREADY HAVE IMPORTANT MINORITY INTERESTS)
LEATHER AND LEATHER PRODUCTS
RETAIL TRADE (UP TO 11 STORES, OR PERHAPS MORE, SELLING 50 PERCENT OR MORE US GOODS OR GOODS MANUFACTURED ABROAD AND CARRYING US TRADE MARKS AND JAPANESE GOODS MAY BE OWNED 100 PERCENT BY FOREIGNERS)

THERE IS NO LIMIT ON EQUITY INVESTMENT IN EXISTING JAPANESE FIRMS IN FULLY LIBERALIZED CATEGORIES, BUT THE FIRM'S BOARD OF DIRECTORS MUST GIVE APPROVAL FOR FOREIGN EQUITY PURCHASE IN EXCESS OF 25 PERCENT. THE GOJ ALSO RETAINS THE AUTHORITY TO DENY A FOREIGN EQUITY PURCHASE JUDGED NOT IN THE BEST INTEREST OF THE STATE. FOREIGN EQUITY INVESTMENT IN THE 17 AREAS YET TO BE LIBERALIZED REMAINS LIMITED TO A TOTAL OF 25 PERCENT, OR 10 PERCENT FOR ANY SINGLE INDIVIDUAL OR FIRM.

UNDER THE NEW REGULATIONS THERE HAS BEEN A DECREASE IN THE DIFFICULTIES WITH GOVT RED TAPE ENCOUNTERED BY FIRMS WISHING TO INVEST IN JAPAN. BUREAUCRATIC DELAY HAS NOT DISAPPEARED, HOWEVER, AND SOME BUREAUCRATS REMAIN UNINFORMED OF THE NEW PROCEDURES. JAPANESE GOVT PRACTICE OF GIVING DIRECTION TO ENTERPRISES CONTINUES TO EXIST, AND HAS INCREASED SOMEWHAT FOLLOWING THE ENERGY CRISIS. EXISTING BUSINESS CONCERNS IN JAPAN CAN ALSO BE EXPECTED TO TAKE STEPS TO DELAY OR BLOCK ENTRY OF FOREIGN FIRMS WHICH HAVE POTENTIALLY SIGNIFICANT COMPETITIVE IMPLICATIONS FOR THE DOMESTIC MARKET. POPULAR CONCERN OVER NEW PLANT CONSTRUCTION, BASED ON ENVIRONMENTAL CONCERNS, IS ALSO A FEATURE OF PRESENT DAY JAPAN. HIGH LAND COSTS, A TIGHT LABOR MARKET AND INCREASING WAGES ALSO DETER INVESTMENT.

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THE GOVT HAS RECENTLY TAKEN STEPS TO TIGHTEN DOMESTIC MONETARY CONTROLS AND TO INDUCE JAPANESE TO BORROW ABROAD. WHILE THE JAPANESE GOVT HAS LIBERALIZED ITS REGULATIONS GOVERNING DIRECT FOREIGN INVESTMENT, MAKING IT EASIER FOR FOREIGNERS TO INVEST IN JAPAN, IT STILL DOES NOT ACTIVELY ENCOURAGE DIRECT FOREIGN INVESTMENT.

CURRENTLY MOST FOREIGN INVESTMENT IN JAPAN IS IN JOINT VENTURES AND IS COMBINED WITH FOREIGN TECHNOLOGICAL INPUT. DESPITE MORE LIBERAL REGULATIONS, THERE HAS BEEN NO SPURT IN THE FORMATION OF WHOLLY OWNED FOREIGN FIRMS IN THE MANUFACTURING SECTOR. END TEXT. END UNCLASSIFIED.

3. BEGIN LIMITED OFFICIAL USE. COMMENT: DEPARTMENT SHOULD NOTE CHANGE IN REGULATIONS GOVERNING RETAIL TRADE. GOJ WOULD HAVE GREAT DIFFICULTY IF U.S. USED, IN PRINTED FTRM, WORDING CONTAINED IN EBERLE-KOMATSU

LETTER
EXCHANGE OF AUG 22, 1972, AND HAS REQUESTED THAT WE USE VAGUE LANGUAGE WHICH APPEARS IN ABOVE TEXT. GOJ VIEWS LETTERS AS STILL CONFIDENTIAL AND, WHILE IT WILL ABIDE BY AGREEMENT IT WOULD NOT WANT THIRD COUNTRIES OR OWN INDUSTRY TO LEARN OF CONTENTS. IF CONTENTS BECOME PUBLIC GOJ WILL STATE APPLICATIONS WILL BE REVIEWED ON CASE-BY-CASE BASIS. GOJ HAS NO PROBLEM WITH USG SPOKESMEN PROVIDING INDUSTRY CONTACTS WITH ORAL BRIEFING AS APPROPRIATE. IN ORAL PRESENTATION SPOKESMEN SHOULD USE FOLLOWING LANGUAGE RE RETAIL TRADE WHICH IS PARAPHRASE OF EBERLE-KOMATSU LETTER: QUOTE EFFECTIVE APR 1, 1974, WHOLLY U.S. OWNED RETAIL OUT-LETS, UP TO A TOTAL OF 20 STORES PER APPLICANT, WILL BE APPROVED SO LONG AS MORE THAN 50 PERCENT OF THE TOTAL SALES OF EACH STORE IS COMPOSED OF U.S. PRODUCTS AND THIRD COUNTRY PRODUCTS CONSIDERED TO BE US PRODUCTS. END QUOTE.
EDMOND

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